

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 19031

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, EEWT, EFIN, ETRD, SHUM, UR, US, FR, GW, PFOR

SUBJECT: VISIT OF SECRETARY OF THE TREASURY SIMON: CALL ON
MINISTER OF FOREIGN TRADE PATOLICHEV

REF: MOSCOW 19000

SUMMARY: SECRETARY SIMON TOLD SOVIET MINISTER OF FOREIGN TRADE PATOLICHEV THAT BEST TIME TO PRESS FOR ELIMINATION OF CURRENT LEGISLATIVE IMPEDIMENTS TO US-SOVIET TRADE WOULD BE EARLY IN CARTER ADMINISTRATION. HE STRESSED THAT RISING CONCERN IN THE U.S. AND ELSEWHERE ABOUT HUMAN RIGHTS WOULD HAVE TO BE TAKEN INTO ACCOUNT IN THE PROCESS. PATOLICHEV ARGUED THAT IT WAS CUSTOMARY FOR GOVERNMENTS TO SUPPORT EXPORTS WITH SUB-MARKET INTEREST RATES, WHEREAS SECRETARY SIMON WARNED THAT THIS VIEW IS STRONGLY CHALLENGED BY MANY IN U.S. PATOLICHIEV EXPRESSED PREFERENCE FOR HOLDING NEXT MEETING OF JOINT COMMERCIAL COMMISSION WITH THE NEW U.S. ADMINISTRATION BUT HOPED THAT THIS COULD BE HELD WITHOUT TOO MUCH DELAY. END SUMMARY.

1. IMMEDIATELY AFTER MEETING STATE BANK DIRECTOR ALKHIMOV ON NOV. 30 (REFTEL), SECRETARY OF THE TREASURY SIMON CALLED ON SOVIET MINISTER OF FOREIGN TRADE NIKOLAY S. PATOLICHEV, SOVIET HONORARY CO-CHAIRMAN OF THE US-USSR TRADE AND ECONOMIC COUNCIL. SECRETARY SIMON WAS AGAIN ACCOMPANIED BY CHARGE, SEIDMAN, PARSKY, E/C COUNSELOR AND TREASURY REP. WITH PATOLICHEV WERE DEPUTY MINISTER OF FOREIGN TRADE MANZHULO, SOVIET TRADE
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REPRESENTATIVE IN THE U.S. MKRTUMOV, MFT AMERICAN COUNTRIES

CHIEF ZINOV'YEV, AND MFT OFFICER GORBUNOV.

2. TRADE NORMALIZATION. RESPONDING TO PATOLICHEV'S SUGGESTION THAT THEY DISCUSS THE FUTURE, SECRETARY SIMON SAID THAT THE MOST IMPORTANT STEP TOWARDS TRADE NORMALIZATION WOULD BE REMOVAL OF LEGISLATIVE IMPEDIMENTS TO EXPORT-IMPORT BANK FINANCING OF U.S. EXPORTS AND TO GRATING MOST-FAVORED-NATION (MFN) CLAUSE TREATMENT TO SOVIET EXPORTS TO THE U.S. THE ADMINISTRATION HAD TRIED TO ACHIEVE THIS GOAL, BUT 1976, AS AN ELECTION YEAR, HAD BEEN AN UNPROFITOUS TIME. NOW THERE WAS A GENERAL RECOGNITION IN THE U.S., EVEN AMONG ITS PROPONENTS AND SPONSORS, THAT THE JACKSON-VANIK AMENDMENT WAS AN ERROR. IT WAS A MATTER OF FINDING THE RIGHT TIME AND THE RIGHT WAY TO REMEDY THE SITUATION. HAVING SAID THIS, HOWEVER, SECRETARY SIMON CONTINUED, HE WISHED TO NOTE A RISING CONCERN IN THE U.S. AND WORLDWIDE CONCERNING HUMAN RIGHTS. THE SUBJECT OF HUMAN RIGHTS HAD TAKEN ON ECONOMIC PROPORTIONS. CONGRESS RESTRICTS ECONOMIC ACTIVITY IN PARTS OF THE WORLD, E.G. CHILE, WHERE HUMAN RIGHTS ARE AFFECTED. ALWAYS KEEPING THE SUBJECT OF HUMAN RIGHTS IN MIND, IT WOULD BE A MATTER OF JUDGMENT WHEN THE RIGHT TIME WOULD BE TO SEEK MFN. EXTENSIVE DISCUSSION OF THIS HAS TAKEN PLACE WITH SENATORS RIBICOFF, JAVITS AND OTHERS AND WITH MEMBERS OF THE JEWISH COMMUNITY. HE PERSONALLY BELIEVED THE TIME WAS APPROACHING WHEN ONE COULD BE OPTIMISTIC. 1977 WAS NOT AN ELECTION YEAR IN THE U.S., ALTHOUGH 1978 IS. HENCE THE BEST TIME TO SEEK A REMEDY WOULD BE EARLY IN THE NEW ADMINISTRATION. SECRETARY SIMON AGAIN CAUTIONED THAT IT WOULD BE NECESSARY TO KEEP IN MIND THAT THE WHOLE SUBJECT OF HUMAN RIGHTS IS AND WILL CONTINUE TO BE A CONTENTIOUS ISSUE IN THE U.S. HE RECOMMENDED INTENSIVE DISCUSSION AT THE EARLIEST MOMENT WITH THE NEXT U.S. ADMINISTRATION, STARTING WITH THE DEPARTMENT OF STATE.

3. TRANSITION. SECRETARY SIMON SAID THAT IT WAS UNCLEAR WHERE TRADE WOULD BE HANDLED IN THE NEW ADMINISTRATION AND RECALLED THAT IN THEIR FIRST MEETING PATOLICHEV HAD COMPLAINED OF GETTING DIZZY DEALING WITH SO MANY U.S. OFFICIALS ON ECONOMIC MATTERS. SECRETARY SIMON MENTIONED HAVING SPOKEN TO PRESIDENT-ELECT CARTER CONCERNING THE EAST-WEST TRADE BOARD AND THE NEED TO CENTRALIZE THIS IMPORTANT SUBJECT IN ONE BODY. HE WOULD BE BRIEFING THE CARTER TRANSITION TEAM IN DETAIL ABOUT IT. WHILE WE HAVE NO WAY

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OF KNOWING WHAT THE FINAL DECISION OF THE NEXT ADMINISTRATION WOULD BE, WE WOULD LOOK TO IT TO HAVE THE SAME INTEREST AS DO THE SOVIETS IN EAST-WEST RELATIONS. IN RESPONSE TO PATOLICHEV'S INQUIRY AS TO WHEN THE NEW LEADERSHIP WOULD BE ORGANIZED, SECRETARY SIMON SAID THAT ONE COULD EXPECT TO SEE THE KEY POSITIONS - SECRETARY OF STATE, TREASURY, DEFENSE, CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISORS, DIRECTOR OF OMB - IDENTIFIED BY MID-DECEMBER. HE EXPRESSED THE EXPECTATION THAT BUSINESS

WOULD CONTINUE TO ENJOY INFLUENCE, AT LEAST AT THE OUTSET, WITH THE CARTER ADMINISTRATION. THAT WAS THE VALUE OF THE TRADE AND ECONOMIC COUNCIL - IT COULD EXPLAIN WITH CONTINUITY WHAT THE PRESENT ADMINISTRATION IS SAYING IN THE TRANSITION PERIOD.

4. JOINT COMMERCIAL

COMMISSION. PATOLICHEV SAID HE HAD ASKED THE FOREGOING QUESTION BECAUSE OF A NEED TO KNOW WHEN TO SEEK THE NEXT MEETING OF THE JOINT COMMERCIAL COMMISSION. IT WOULD BE USEFUL BUT DIFFICULT TO MEET IN DECEMBER. THE FORMATION OF A NEW ADMINISTRATION (IN THE U.S.), HE KNEW, WAS NOT A SIMPLE MATTER. THE NEW U.S. LEADERSHIP WOULD REQUIRE TIME TO ADJUST TO ITS NEW RESPONSIBILITIES, TIME TO GET BRIEFED. SECRETARY SIMON AGREED, SAYING WE WERE PREPARED TO MEET IN WASHINGTON IF THE SOVIET SIDE WISHED BUT THAT IF THE MEETING WERE TO ACCOMPLISH ANYTHING, IT SHOULD BE WITH THE NEXT ADMINISTRATION. HE THOUGHT IT IN THE SOVIET INTEREST TO SEEK SUCH A MEETING AS SOON AS POSSIBLE AFTER THE INAUGURATION, NOTING THAT THERE WOULD BE MANY DEMANDS ON THE TIME OF THE NEW LEADERSHIP. PATOLICHEV AGREED THAT IT WOULD BE USEFUL TO HAVE THE NEXT JOINT COMMISSION MEETING WITH THE NEW U.S. ADMINISTRATION. THERE WOULD BE AN EXCHANGE OF VIEWS WHEN BREZHNEV MET WITH THE TRADE AND ECONOMIC COUNCIL, SO THE COMMISSION MEETING COULD BE DELAYED. HOWEVER, THE DELAY SHOULD NOT BE SO LONG AS TO PUT ITS WORK LOW ON THE PRIORITY LIST OF THE NEXT ADMINISTRATION. THERE WAS ALSO SOME PROBLEM SINCE THE U.S. WOULD BE THE RECEIVING SIDE AND THEREFORE THE DATE WOULD BE UP TO IT. THE SOVIET SIDE, CONTINUED PATOLICHEV, VIEWS THIS SUBJECT SERIOUSLY. HE INVITED SECRETARY SIMON TO (CONTINUE TO) PARTICIPATE IN THE ACTIVITIES OF THE COUNCIL. SIMON RESPONDED THAT WITH REGARD TO THE NEXT MEETING OF THE COMMISSION, COUNCIL LEADERS KENDALL AND SCOTT WERE NOT BASHFUL, NOR WAS HE, HIMSELF, RETICENT TO MAKE HIS OWN VIEWS KNOWN. PATOLICHEV RESPONDED THAT THE SOVIETS SAY MR. SIMON

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AND HIS COLLEAGUES AS "INITIATIVE PEOPLE" AND WOULD CONTINUE TO COUNT ON THEM. IN SOVIET EYES A PERSON WHO STANDS FOR GOOD RELATIONS BETWEEN THE U.S. AND THE USSR LOOKS EVEN MORE HANDSOME THAN HE IS - THAT WAS NOT ONLY HIS PERCEPTION BUT THAT OF "ALL HONORABLE PEOPLE".

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6. CREDIT. PATOLICHEV CITED A MEETING EIGHT YEARS AGO WITH FRG ECONOMICS MINISTER FRIEDRICHS, WHEN THEY HAD CONCLUDED A VERY GOOD 20-YEAR AGREEMENT ON NATURAL GAS IN LESS THAN ONE MONTH'S TIME. RUHR GAS HAD NEEDED GAS. MANNESMANN/THYSSEN HAD AN INTEREST IN SELLING PIPE. DEUTSCHE BANK WAS TO FINANCE THE OPERATION BY SUPPLYING A BIG CREDIT. (AT THIS POINT PATOLICHEV WAS INTERRUPTED BY TELEPHONE CALL FROM GENERAL SECRETARY BREZHNEV, DURING WHICH THE LATTER REQUESTED HIM TO CONVEY GREETINGS TO SECRETARY SIMON.) CONTINUING HIS ACCOUNT, PATOLICHEV SAID THAT THE GERMANS AT FIRST WANTED TOO HIGH AN INTEREST RATE FOR THE CREDIT. BUT THE GERMANS HAD NEEDED THE GAS, AND SOMEHOW DEUTSCHE BANK PROVED ABLE TO FINANCE THE TRANSACTION. HE DID NOT KNOW ALL OF THE DETAILS, BUT THE DEAL HAD BEEN IMPORTANT TO RUHR GAS AND MANNESMANN/THYSSEN, SO A WAY WAS FOUND. PATOLICHEV ADDED THAT THE GERMANS HAVE DISCOVERED THAT THEIR OWN GAS RESERVES ARE NOT AS GREAT AS THEY EXPECTED, SO THEY ARE ESPECIALLY INTERESTED IN SOVIET SUPPLIES.

7. CREDIT (CON'T). PATOLICHEV SAID THAT U.S. INDUSTRIAL SALES TO THE USSR IN 1976 WOULD BE ABOUT \$800 MILLION. IF NO STEPS WERE TAKEN, HOWEVER, THERE WOULD BE A DRASTIC FALL IN THOSE FIGURES. THE AMOUNT OF U.S. SALES COULD BE MUCH GREATER, SO THE SOVIETS WANTED FINANCING TO BE THOROUGHLY EXAMINED IN THE U.S. TO ASCERTAIN IF LACK OF GOVERNMENT SUPPORT IS NOT AN OBSTACLE TO TRADE. THE RUSSIANS WERE NOT SEEKING ANYTHING SPECIAL, OTHER THAN TO SEE TRADE DEVELOP. HE MENTIONED BRITISH, CANADIAN, FRENCH AND JAPANESE RESENTMENT THAT THE USSR DOES NOT CONFIDENTIAL

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DRAW DOWN OFFICIAL LINES OF CREDIT MADE AVAILABLE BY THE GOVERNMENTS OF THOSE COUNTRIES. "WE ARE NOT A COUNTRY WHICH WILL ACCEPT CREDIT ON ANY ACCOUNT," PATOLICHEV SAID. THE USSR COULD DO WITHOUT. BUT CREDIT EXPEDITES TRADE, PERMITS THE PLAN TO BE

IMPLEMENTED, AND THAT IS THE PURPOSE OF THE MINISTRY OF FOREIGN TRADE. SECRETARY SIMON SAID THAT HE OBVIOUSLY AGREED CREDITS ARE AN INTEGRAL PART OF TRADE. HE AGAIN RECALLED THE ADMINISTRATION'S EFFORTS TO DECOUPLE THE LEGISLATIVE LINKAGE BETWEEN EXPORT-IMPORT BANK FINANCING AND HUMAN RIGHTS. IN HIS VIEW, EX-IM HAS A VERY IMPORTANT TASK IN PROMOTING THE EXPANSION OF US-SOVIET TRADE. SIMON CAUTIONED, HOWEVER, THAT THERE IS TREMENDOUS WORLD-WIDE DEMAND FOR CAPITAL - IT IS NEEDED FOR ENVIRONMENTAL GOALS, INVESTMENT, ETC., TO A DEGREE THAT IS JUST STAGGERING. THE DEMAND FOR CAPITAL WOULD BE \$4.5 TRILLION IN THE NEXT TEN YEARS - THREE TIMES THE AMOUNT OF THE LAST DECADE. TAKING DEMAND AND ADDING THE INFLUENCE OF INFLATION, ONE COULD SEE THE EFFECT ON INTEREST RATES, WHICH WERE HIGHER THAN WHAT HE OR PATOLICHEV WOULD CALL NORMAL. MOROVER, MANY AMERICANS PAYING NINE PERCENT INTEREST ON HOME LOANS CANNOT UNDERSTAND A LOWER EX-IM RATE. CONGRESSMEN ARE HARD PRESSED TO EXPLAIN THIS.

8. (CREDIT CONJT). PATOLICHEV DIGRESSED BY MENTIONING, WITH A REFERENCE TO "HUMAN RIGHTS", THE PROBLEM OF A WEST GERMAN WOMAN PAYING HALF HER SALARY FOR RENT. SIMON REPLIED THAT ONE COULD HAVE A LONG DEBATE ON THE FREE MARKET VERSUS THE "OTHER ONE". AS FAR AS NINE PERCENT INTEREST RATES, THAT IS THE FAULT OF BAD MANAGEMENT. PROPER ECONOMIC POLICIES WOULD REDUCE IT. BUT EVEN WHEN INTEREST RATES WERE LOW IN THE U.S., EX-IM WAS CRITICIZED AT HOME FOR LENDING BELOW THE MARKET LEVEL. THE ADMINISTRATION HAD BEEN RESISTING SUCH PRESSURES FOR THE PAST EIGHT YEARS, AND THE NEXT ONE WOULD HAVE TO FACE THE SAME PROBLEM VERY EXPLICITLY. EX-IM LEGISLATION MUST BE RENEWED IN JUNE, 1978, HE THOUGHT. PATOLICHEV SAID IT WOULD BE EASY TO SHOW THAT EX-IM SUPPORTS EXPORT ACTIVITY. IT HAS BECOME CUSTOMARY FOR GOVERNMENTS TO HAVE SUB-MARKET INTEREST RATES TO SUPPORT EXPORTS. THE SOVIET AGREEMENT WITH FRANCE PROVIDES FOR INTEREST AT 6.5 PERCENT ON BIG DEALS AND 6.75 PERCENT ON SMALL ONES. HE HAD NEVER HEARD OF ANYONE IN THE FRENCH PARLIAMENT COMPLAINING ABOUT THIS. THE SECRETARY REPLIED THAT WE HAVE USED THE ARGUMENT THAT EXPORTS MEAN A SOUND DOLLAR, BUT THE ISSUE REMAINS AND WILL HAVE TO BE FACED. MOREOVER, EXPORTS REPRESENT ONLY ABOUT SIX PERCENT OF OUR CONFIDENTIAL

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GROSS NATIONAL PRODUCT AND ARE MORE IMPORTANT FOR COUNTRIES LIKE GERMANY AND FRANCE.

9. IN CONCLUSION SECRETARY SIMON AND MINISTER PATOLICHEV AGREED THAT STRENGTHENING TRADE PROMOTES THE OBJECTIVE OF PEACE. WHILE EACH OF US COULD SURVIVE WITHOUT TRADING WITH THE OTHER, IT WOULD BE NONSENSICAL TO DO SO.
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